

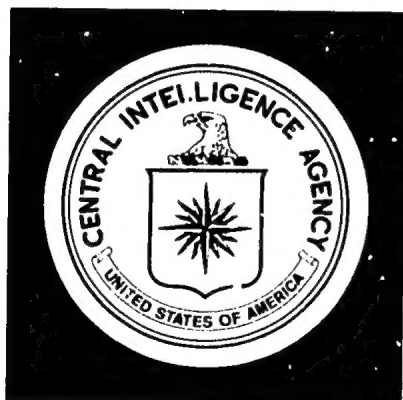
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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Bangladesh: Gaunt Economic Prospects

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March 1973

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March 1973

Bangladesh: Gaunt Economic Prospects

Economic recovery in Bangladesh has been slow, and the economy is still operating below prewar levels.

- Massive relief aid and the presence of UN technicians thus far have forestalled any widespread famine. Almost 2.6 million metric tons of foodgrains (roughly one-fifth of total foodgrain consumption) were imported in 1972.
- Rice production for the crop year ending 30 June 1973 will be the lowest in six years. Dacca has predicted a foodgrain deficit of 3 million tons during 1973.
- Industrial recovery has been limited largely to the export-oriented jute industry. Most other industries remain depressed because of shortages of imported machinery and raw materials, the loss of Pakistani markets, and the overwhelming priority of the food problem.

The near term economic outlook is merely for gaunt survival.

- Aid donors have come forward with only 660,000 tons of grain for 1973, or about one-fifth of needed foreign supplies. Commercial purchases of grain must be made at rising world prices out of meager foreign exchange reserves.
- Bangladesh tea, paper, and matches are not competitive on world markets, and even jute faces an uncertain future.
- The population, increasing at a minimum of 3% a year, is illiterate, underfed, and underemployed.
- The government lacks both the resources and the expertise to carry out a vigorous investment program.

Foreign support of Bangladesh is much more likely to provide minimum subsistence for the rapidly expanding population than to generate economic momentum.

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CONFIDENTIAL**DISCUSSION****Formidable Problems at the Start**

1. The civil war of March-December 1971 had slowed economic activity in the East Wing of Pakistan by terrorizing factory workers and farmers, disrupting the internal transport system, and limiting the ports mainly to military and food shipments. Industrial activity plummeted in the early months of the fighting and remained well below normal throughout the civil war. In rural areas, guerrilla warfare and Pakistani army reprisals impeded the planting and harvesting of both rice and jute. Nonetheless, severe foodgrain shortages were averted, mainly because 10 million refugees fled to India and because about one million tons of foodgrains were imported during the civil war. After sharp initial increases, prices stabilized at 20%-30% above prewar levels during most of 1971.

2. India's invasion of the East Wing in December 1971 brought more destruction and an almost total halt in economic activity. The retreating Pakistani army blew up bridges to slow the Indian advance, and Indian aircraft bombed bridges and ferries in an attempt to cut off the Pakistani withdrawal. The fighting occurred during the peak harvest period of the major rice crop, adding to the grain losses during the harvest process.

3. The new nation of Bangladesh in early 1972 had to face up to the following formidable tasks: (a) the political and administrative structure had to be rebuilt and law and order re-established; (b) refugees had to be returned, resettled, and supported until the next harvest; (c) supplemental food supplies had to be obtained and distributed through a damaged transport system; and (d) foreign trade had to be restored quickly, as there were no foreign exchange reserves. All of these tasks had to be achieved with the remnants of a provincial government unaccustomed to the functions of a national administration. West Pakistani administrators had fled, many Bengali officials were discredited for collaborating with the former military regime, and some of the best Bengali civil servants were marooned in Pakistan. There was little ground for optimism.¹

Foreign Aid Provides Temporary Relief

4. In response to urgent appeals by Dacca, economic aid totaling about US \$1.3 billion was pledged during 1972 by 38 foreign nations, the International Development Association, and other international and private organizations. As a result, Bangladesh was the beneficiary of more foreign

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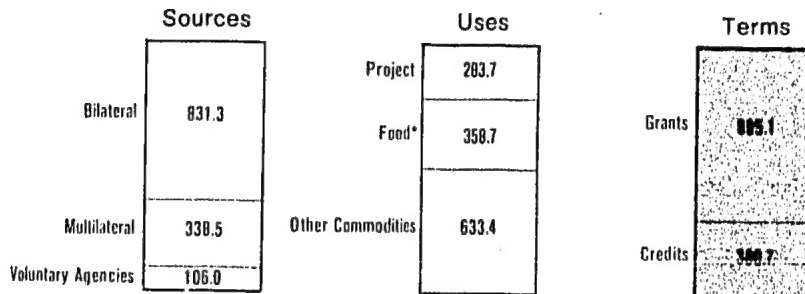
economic aid pledges in 1972 than any other nation. Only \$634 million was actually used in 1972 because of unavoidable lags between commitment and delivery, the limited capacity of the nation's ports, and the government's preoccupation with food and other relief aid as contrasted to development aid. Nevertheless, aid drawings in 1972 were more than four times the \$150 million the region was receiving annually in the late 1960s as the East Wing of Pakistan.

5. Most of the aid pledges were grants of commodity assistance through bilateral channels (see Figure 1). Food and transport assistance, with the notable exception of India's overland shipments, was largely coordinated by the United Nations' Relief Operation in Dacca (UNROD). UNROD began operations in late December 1972 with personnel and funds from the earlier UN East Pakistan Relief Organization, which had been set up after the devastating 1970 cyclone. Faced with an extensively damaged road and rail network, UNROD organized a food distribution system based mainly on water transport. Foreign donors contributed various types of river vessels as well as funds for chartering private vessels. During 1972, about 2.2 million tons of imported foodgrains, mostly wheat, were distributed from the ports through the UNROD network. An additional 400,000 tons were shipped directly across India's borders by rail, road, and river.

Figure 1

Bangladesh: Characteristics of Foreign Aid Extended, 1972

Million US \$
Total: \$1,275.8



*Including donated cash spent on food imports as well as direct bilateral and multilateral food aid.

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6. The two largest donors, the United States and India, accounted for almost half of total aid (see Table 1).² India provided 800,000 tons of foodgrains, assisted in repairing railroads and ports, granted \$33 million in rupees for purchases in India, and lent \$13 million in foreign exchange on easy terms. The Indian food aid was critical in early 1972 because it reached Bangladesh quickly via overland routes. The United States provided 875,000 tons of foodgrains and substantial quantities of edible oil, cotton, fertilizer, pesticides, and tallow. It also provided funds for relief and reconstruction, both bilaterally and through the UN and voluntary agencies. Aid from the USSR, about 10% of the total, consisted mainly of machinery, ships and fishing trawlers, and assistance in clearing Chittagong harbor of mines and sunken ships. More than half of all aid was intended for immediate relief and reconstruction, including efforts to buttress agricultural production (see Figure 2).

Figure 2

Bangladesh: Foreign Aid Extended, by Sector, 1972

Million US \$

Total: \$1,276	
48	Sanitation and Housing
64	Social Welfare
114	Trade and Industries
- 80	Energy
137	Agriculture and Fisheries
245	Miscellaneous
229	Transport and Communications
359	Food Relief*

*Including donated cash spent on food imports as well as direct bilateral and multilateral food aid.
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7. Only nominal amounts of foreign assistance were involved in the return of the 10 million refugees who fled to India in 1972. Practically all the refugees returned to Bangladesh during the first three months after independence. Indian authorities provided them with a few days' food rations, a little money, blankets, transportation to points in Bangladesh, and extra cash when free transportation was unavailable. India's aid pledges included a \$25 million grant to Bangladesh for cash payments to returnees when they reached their destinations. New Delhi already had financed about half of the estimated cost of \$400 million to \$500 million for the refugees while they were in India, and foreign donors had financed the remainder. Dacca, with UN assistance, set up reception centers for the returning refugees, but most of them went directly to their villages. Dacca also offered food, cash, and housing grants to returnees and other displaced persons. In general, the returnees were well received in their communities and had little trouble recovering their land and resuming their pattern of life.

2. Tables follow in the Appendix.

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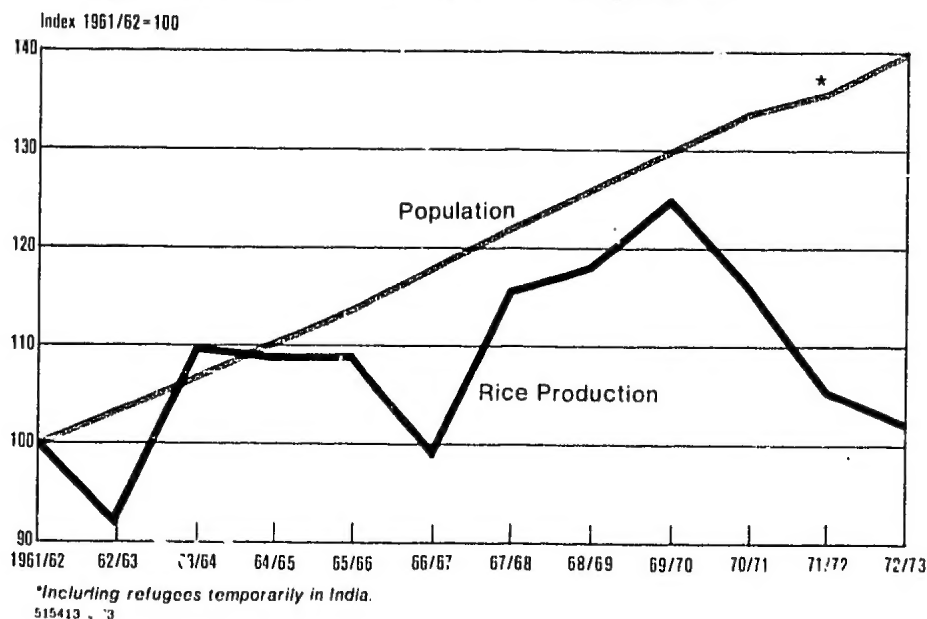
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Rice Production Fails to Recover

8. The 1972/73 rice crop³ is estimated at only 9.8 million tons, about the same as the previous year and almost 20% below the record crop in 1969/70 (see Figure 3). Crops harvested last fall (the **aus** crop) and winter (the **aman** crop) were the smallest in 14 years. Late spring rains in 1972 delayed sowing and reduced acreage of the fall crop, and subsequent poor monsoon rains – especially in September and October when the rice was maturing – reduced yields of the winter crop. The crop remaining to be harvested in April and May (the **boro** crop) of 1973 is expected to increase over last year, according to UN experts, mainly because of increased plantings of high-yielding varieties. This dry-season crop has expanded substantially since the mid-1960s, whereas the other two crops have generally declined (see Table 2).

Bangladesh: Rice Production and Population

Figure 3



Jute Up, Tea Down

9. The 1972/73 jute crop of about 6.4 million bales, harvested in late summer, almost reached its prewar level thanks mainly to government

3. The crop year begins on 1 July and ends on 30 June.

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subsidies for fertilizers, seeds, pesticides, and the like. Production was still short of the record 7.2 million bales harvested in 1969/70 (see Table 3). The government clearly was anxious to boost its jute exports as quickly as possible, jute being the principal earner of foreign exchange. Procurement was facilitated by three government-owned trading corporations that handle about half the domestic trade in raw jute.

10. In contrast to the quick recovery in jute, the 1972/73 tea crop is expected to total only about 23,000 tons, about 25% below prewar levels. Many of the foreign managers fled during the civil war and have not yet returned. In any event, almost all of the tea market was lost when trade with the former West Pakistan was halted. The sale of tea in this protected market tended to raise production costs above world prices and hence reduce its competitiveness on world markets.

Partial Industrial Recovery

11. Immediately after independence, Dacca nationalized many of the nation's factories, in general simply to get plants back in operation because the former Pakistani owners had fled. In March 1972, the nationalization was extended to include all jute, cotton textile, and sugar mills, as well as large-scale establishments in other sectors. By early 1973, more than 400 manufacturing enterprises containing 85% of industrial capital assets were in the public sector. The nationalized firms are grouped under 12 separate government corporations, each covering a branch of industry -- for example, jute, sugar. The government corporations are responsible for setting production goals, coordinating production processes, and solving labor-management disputes. In spite of this administrative superstructure, government interference in management has been light, with individual firms operating competitively and former middle-level managers generally filling top positions.

12. The resumption of industrial production in 1972 was spotty. The key jute processing industry was the only major branch to recover rapidly. Production reached about 45,000 tons in August, the highest monthly level since January 1971 (see Table 4). The industry's recovery was facilitated by the accumulation of large stocks of raw jute during 1971 when mills were operating far below normal. After mid-summer of 1972, however, further expansion of jute production proved impossible for a combination of reasons, including the drawdown of mill stocks, the inexperience of the new management, and the lack of imported spare parts for looms damaged during the war.

13. Other portions of the industrial sector recovered more slowly. The cotton textile industry had almost totally depended on cotton supplied

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by West Pakistan, and raw cotton shortages restricted cotton cloth production to half of normal in 1972. Production of paper products and matches has not recovered because more than half of prewar production was sold to Pakistan. Other industrial facilities, including some chemical plants, a petroleum refinery, and a cement plant, were still operating well below prewar levels in early 1973.

14. In general, industrial recovery has been thwarted by a lack of raw materials and spare parts, transportation bottlenecks, an inadequate and erratic power supply, inexperienced management, and labor troubles. Most of the industries depend heavily on imported raw materials, machinery, and spare parts. Concern over the limitations on export earnings apparently has caused the government to withhold import licenses for sectors other than food and transport. The proliferation of workers' organizations has given rise to unrealistic wage demands and irresponsible promises, contributing to a general deterioration of labor discipline. The consequences of the sudden fracture of market linkages with West Pakistan have included shortages of consumer goods, raw materials, and intermediate goods, together with the reduced size of the market for major products.

Accumulation of Foreign Exchange Reserves

15. A sharp recovery in exports and restrictions on commercial imports permitted the new nation to accumulate \$240 million in foreign exchange reserves by the end of 1972. Export earnings increased from about \$200 million in 1971 to almost \$300 million in 1972 (see Table 5). At the same time, net outlays for commercial imports were limited to about \$60 million. Jute and jute products accounted for all but \$28 million of 1972 export earnings. The recovery of jute exports was facilitated by the availability of large stocks that could not be marketed in 1971. Other exports, notably tea, remained depressed because of production problems and lack of markets.

16. In 1972 the government took over the jute trade and abolished the "Bonus Voucher" system, which had provided incentives to private exporters through multiple exchange rates. The takeover of the jute mills in early 1972 had effectively placed the export of jute manufactures into government hands. In June, Dacca established a Jute Export Corporation to control the trade in raw jute as well as jute manufactures. The tea trade was not nationalized, probably because most sales have been under government-to-government barter agreements. With almost all of the export trade in government hands, there was no further need for an export incentive program, and the Bonus Voucher system was discontinued.

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17. Trade relations with India, discontinued after the 1965 Indo-Pakistani war, were re-established. According to a bilateral trade agreement signed in March 1972, Bangladesh was to import from India tobacco, cotton textiles, machinery, pharmaceuticals, and cement and other construction materials. In return, it was to export petroleum products, fish, and raw jute. During 1972, however, most imports from India were aid-financed rather than related to the trade agreement. The development of substantial commercial trade with India is likely only if Bangladesh can establish domestic economic momentum.

Development Planning Under Way

18. The transition from provincial to national administration required substantial changes in the financial system. Revenue transfers and loans no longer arrived from Pakistan, and the administration of the tax structure had to be assumed by the new government. The government now receives substantial loans and grants directly from abroad instead of through Islamabad. On the expenditure side, the major changes have been the emergence of national expenditures such as defense and economic development. The weak tax base of the convalescent economy cannot bear substantial new burdens, and economic development clearly depends on the scale of foreign assistance.

19. In June 1972 the Bangladesh Planning Commission announced the annual plan for fiscal year 1972/73, which outlined proposed public spending on relief, reconstruction, and development. Major objectives of the plan included the strengthening of agriculture so that foodgrain self-sufficiency could be achieved by 1975, the restoration of industrial output to its prewar level, and the rehabilitation of the transport system. About one-third of total planned expenditures of 5 billion takas⁴ was for relief and reconstruction, and the remainder for development (see Table 6). Expenditures for relief and reconstruction were earmarked primarily for housing and transport. Development expenditures gave overriding priority to agriculture and supporting sectors – nearly two-thirds of development expenditures directly or indirectly were aimed at the rural economy.

20. According to the plan, foreign aid was to provide almost three-fourths of total financing. The remainder was to be financed in about equal shares by the government's revenue surplus and bank borrowing. A new central bank was set up in January 1972, and all banks except those foreign-owned were nationalized in March. Each bank has a managing director appointed by the government. Several development banks specialized by sectors of the economy were also established.

4. On 1 January 1972 a new Bangladesh currency, the taka, was fixed at par with the Indian rupee (7.28 takas to US \$1). On 22 March 1973 the exchange rate was 7.67 takas to US \$1.

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Recovery Still Elusive

21. In March 1973, Dacca released an economic report indicating that progress toward recovery had been disappointing. Compared with 1969/70, before the breakaway from Pakistan, urban prices had doubled and per capita income had fallen about 16%. The poor economic situation was blamed on last year's drought and the economic disruptions of divorce from Pakistan. The Planning Commission estimated that new aid commitments totaling \$825 million would be required for the 18-month period ending June 1974. The report was prepared for the information of World Bank members, who had accounted for more than four-fifths of the aid commitments in 1972. The World Bank members are scheduled to meet in Dacca on 31 March.

Foodgrain Deficit

22. Another large foodgrain deficit -- about 3 million tons -- is expected in 1973. By March, Dacca already had arranged for delivery of 1.86 million tons, including 658,000 tons from aid donors, mainly the United States, the European Economic Community, and Canada. The remaining 1.2 million tons were purchased commercially at a cost of about \$140 million. The government has appealed to aid donors to make up the remaining deficit of more than one million tons. At the same time, responsibility for food distribution has been gradually shifted to the new government's Food Corporation, because UNROD is to start dismantling its operations on 31 March.

Lost Trade Links

23. Dacca's failure to find new markets for most goods formerly sold to Pakistan will continue to depress its industrial sector. Tea, paper, and matches, which were previously sold only to Pakistan, are not competitive on world markets. Consequently, even a restoration of economic relations with Pakistan would not necessarily mean a resumption of trade in those commodities. On the other hand, if markets are clearly available, the Bangladesh government may choose to subsidize exports of those commodities in order to increase foreign exchange earnings.

24. The need to import commodities previously purchased from Pakistan places an additional strain on Dacca's meager foreign exchange earnings. Scarcities during 1972 of cotton textiles, edible oils, tobacco products, and cement resulted directly from the halt of purchases from Pakistan and the government's restrictions on such imports from other countries. It is estimated that one-third of total imports -- both foreign

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and interwing - was purchased from Pakistan before the war.⁵ Product shortages, as well as some monetary expansion, doubled the prices of many consumer goods during 1972.

25. Export prospects are clouded because of Dacca's almost exclusive dependence on jute and jute products as hard currency earners. These commodities face an uncertain future. Competition from synthetics as well as the growth in bulk cargoes has reduced demand for jute sacking. Jute mills have shifted increasingly to carpet backing, a commodity with favorable short-run prospects but likewise threatened by competition from synthetics. Cooperation with India - the only other major jute exporter -- could moderate the sharp price fluctuations characteristic of the jute trade in recent years. At the same time, any stabilization of prices at a high level by Dacca and New Delhi could accelerate the shift by consumers to cheaper substitutes.

Stifled Industrial Sector

26. Industrial growth will likely be constrained not only by the absence of Pakistani markets but also by import restrictions and tight reins on private investment. Despite liberalized import policies announced for the first half of 1973, the massive commercial purchases of foodgrains at rising prices make it unlikely that Bangladesh can afford to import needed spare parts and machinery. Moreover, the new industrial investment policy of January 1973 is strict compared with other less developed countries. The government announced that private foreign investment will be permitted only in collaboration with public sector firms and that foreign interests will be limited to 49% of the firm's equity. At the same time, a 10-year moratorium was placed on further nationalization, and the maximum permissible capitalization of private firms was increased sharply. These policies probably represent as much of an accommodation with the private sector as is politically possible in view of Dacca's commitment to nationalism and socialism.

27. The Bengalis' lack of management experience portends continuing problems in administering public enterprises. Before independence, Pakistani businessmen controlled most top managerial positions, and were aided primarily by the Urdu-speaking Biharis. With the Pakistanis exiled and the Biharis effectively barred from industrial activity, most factories are manned by inexperienced administrators. Overtures by Indian businessmen to assist in the recovery were rebuffed. The shortage of administrative talent will be relieved somewhat with the return of the Bengali civil servants now stranded in Pakistan.

5. The Pakistani rupee was over-valued by about 100%, and interwing imports have been converted from rupees to dollars accordingly.

Aid Complications

28. In its request for economic aid, Dacca did not take into account either its ability to absorb such massive amounts of aid or its obligation to repay loans from which it benefited before the breakaway from Pakistan. Bangladesh used only about \$300 million of non-food aid commitments, which totaled more than \$900 million during 1972. It has requested further non-food aid of \$655 million, based on a doubling of annual import requirements. Considering last year's performance, it is doubtful that Bangladesh could absorb such large amounts of aid by June 1974, the time frame specified by Dacca.

29. Aid donors probably will insist that Bangladesh agree to pay its share of the foreign debt incurred by Pakistan before the secession. Dacca's share, about one-third of the total, is estimated at about \$1 billion, with annual debt payments of roughly \$100 million. Under the circumstances, the World Bank members, who are the major creditors involved, most likely will provide debt relief. The USSR, China, and some East European creditors already have absolved Pakistan of responsibility for servicing the Bangladesh share of the total debt.

Impoverished Masses

30. The general economic constraints on Bangladesh add up to continued hunger and misery for the great bulk of the population. A large fraction of the people will continue to have a caloric intake well below the 2,000 calories per day needed for minimum health and productive efficiency. An erratic monsoon can at any time push additional millions below the line and would increase the already sizable food deficit.

31. Not only is Bangladesh the most densely populated of the large nations -- almost 80 million people on 55,000 square miles -- but also the population is increasing at a rate that greatly complicates the problem of economic development. If one is "optimistic" and believes the population is growing at 3%, it will double in 24 years (by 1997). If one is "pessimistic" and thinks the rate is 3.5%, the doubling will occur in 20 years (by 1993). Can these hypothetical numbers of human beings actually come into existence and survive in the abysmally low state of life in today's Bangladesh? The answer is probably yes. Aid for Bangladesh from the well-to-do nations is more likely to provide for the survival of additional millions rather than to generate the economic momentum necessary to escape from the weary Malthusian cycle. Even more discouraging, apparent successes in domestic economic development -- such as the raising of the technology of the agricultural sector or the obtaining of additional export markets for industrial products -- may merely mean that Bangladesh pays more of its food bill, not that it makes per capita economic progress.

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APPENDIX

STATISTICAL TABLES

Table 1

Bangladesh: Foreign Aid Extended, by Donor¹
1972

	Million US \$				
	Bilateral		Multilateral and Voluntary Agencies		Total
	Food	Non-Food	Food to UNROD ²	Other	
Total	240.75	590.59	88.74	355.68	1,275.76
United States	54.80	117.53	72.60	102.04	346.97
India	118.36	141.00	....	2.59	261.95
USSR	8.73	127.66	....	....	136.39
World Bank	....	....	....	107.10	107.10
Canada	37.50	30.00	4.75	8.22	80.47
Yugoslavia	....	50.00	....	....	50.00
United Kingdom	....	14.74	....	32.79	47.53
Sweden	....	28.10	....	12.83	40.93
West Germany	3.42	8.61	...	27.32	39.35
Czechoslovakia	....	25.00	....	....	25.00
Other	17.94	47.95	11.39	62.79	140.07

1. Data supplied to the UN by individual donors.
2. UN Relief Operation in Dacca.

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Table 2

Bangladesh: Rice Production, by Crop

Crop Year ¹	Million Metric Tons			
	Aus	Aman	Boro	Total
1961/62	2.37	6.76	0.49	9.62
1962/63	2.24	6.14	0.49	8.87
1963/64	2.70	7.41	0.52	10.63
1964/65	2.54	7.38	0.58	10.50
1965/66	2.97	6.91	0.63	10.51
1966/67	2.72	6.01	0.84	9.57
1967/68	3.12	6.92	1.13	11.17
1968/69	2.72	6.98	1.64	11.34
1969/70	3.01	7.06	1.94	12.01
1970/71	2.91	6.00	2.24	11.15
1971/72	2.38	5.79	1.97	10.14
1972/73	2.13	5.57	2.10	9.80

1. The crop year begins on 1 July and ends on 30 June.

Table 3

Bangladesh: Jute and Tea Production

Crop Year ¹	Jute	Tea
	(Thousand Bales)	(Thousand Metric Tons)
1960/61	5,625	19
1961/62	6,969	26
1962/63	5,145	23
1963/64	5,499	25
1964/65	5,380	28
1965/66	6,693	27
1966/67	6,400	28
1967/68	6,670	29
1968/69	5,754	28
1969/70	7,171	30
1970/71	6,670	31
1971/72	4,193	12
1972/73	6,368	23

1. The crop year begins on 1 July and ends on 30 June.

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Table 4

Bangladesh: Monthly Production
of Jute Manufactures

	Thousand Metric Tons		
	1970	1971	1972
Jan	54.5	61.2	7.2
Feb	39.6	40.4	17.7
Mar	49.0	26.5	30.4
Apr	51.0	4.3	36.1
May	45.5	10.9	40.0
Jun	49.0	16.6	40.5
Jul	53.9	25.0	43.1
Aug	51.1	24.1	44.8
Sep	52.7	30.0	39.8
Oct	57.2	28.7	42.6
Nov	52.1	19.5	32.7
Dec	43.4	2.7	41.1

Table 5

Bangladesh: Export Earnings¹

	Million US \$				
	Jute				
	Total	Total	Raw	Manufactured	Other
1967/68 ²	311	286	159	127	25
1968/69	324	292	154	138	32
1969/70	350	320	160	159	30
1970/71	262	240	105	135	22
1971/72	228	207	99	109	21
1971					
Jan-Jun	109	101	51	50	8
Jul-Dec	89	81	39	42	8
1972					
Jan-Jun	139	126	60	67	13
Jul-Dec	158	142	53	89	15

1. Because of rounding, components may not add to the totals shown.
2. The fiscal year begins on 1 July and ends on 30 June.

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Table 6

Bangladesh: Planned Public Expenditures
FY 1972/73¹

Main Sector	Million Takas		
	Relief and Reconstruction Expenditure	Development Expenditure	Total Expenditure
Total	1,865	3,145	5,010
Agriculture	125	647	772
Rural institutions	23	330	353
Water and flood controls	20	609	629
Power	95	354	449
Education	51	200	251
Social welfare	32	10	42
Health and family planning	49	120	169
Industry	66	300	366
Transportation and communications	558	424	982
Public housing	48	151	199
Cyclone recon- struction	100	....	100
Rehabilitation (mainly housing)	660	660
Contingency	38	38

1. The fiscal year begins on 1 July and ends on 30 June.

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